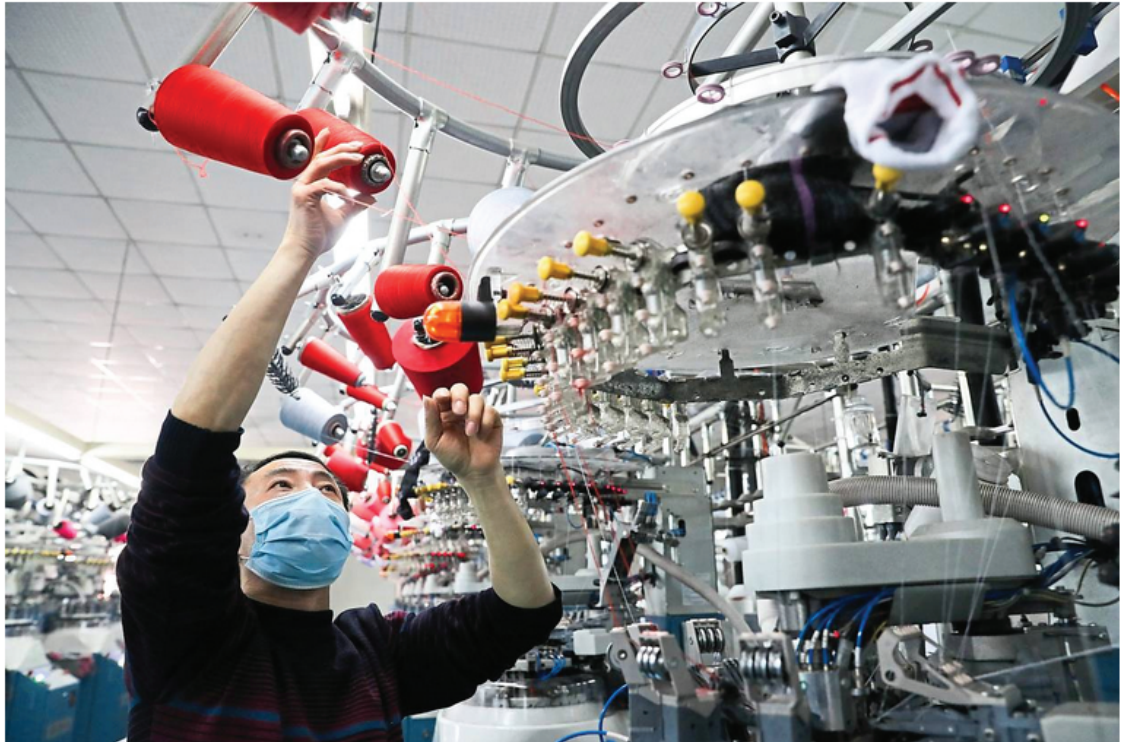


Not all gloom and doom in virus outbreak

CHINA

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By S. NAVALAN



Business as usual: An employee wearing a face mask working on a production line manufacturing socks for export at a factory in Huzhou's Deqing county, Zhejiang province, China. — Reuters

TheStar

THE year has not been a good start for many countries in the world – more so for Asean, with the coronavirus (Covid-19) outbreak still raging on in China.

The Chinese lunar new year was supposed to be a merry festival for most in the region, but there was no celebrative mood. In Asean, businesses linked to the tourism and retail sectors were ready to welcome a large number of Chinese tourists as this was the “golden holiday” season for deep-pocketed tourists.

Since the emergence of China as the world’s second largest economy, its nationals – including more than 400 million middle class people – have helped to boost the tourism sector in Asean and the world as they are generous spenders during their travels. China is now the biggest contributor to the global tourism sector, according to Global Times.

The world receives more than 200 million Chinese tourists a year. In Asean, the top destinations are Thailand, Singapore, Malaysia, Cambodia, Indonesia and the Philippines, with rising interest in Vietnam, Myanmar and Laos. But eager expectations of the business sector to get more yuan came to a shuddering halt last month after China was hit by coronavirus disease. Wuhan, the epicentre of the outbreak that accounts for 80% of the deaths, went into a lockdown just before the start of the lunar new year. This was followed by other cities in Hubei and Hunan.

As of midnight on Feb 18, China reported that the death toll surpassed 2,000 after 136 more people died, but the number of new cases has been falling according to the China National Health Commission.

This total number of confirmed cases in mainland China was 74,185. The death toll rose to 2,004, with most of the deaths in central Hubei province, where the virus first emerged in December before spiralling into a nationwide epidemic.

The people have been advised by their government to stay home until the outbreak has been contained. Last month, everything came close to a standstill: travelling plans were cancelled, most flights linked to China were suspended, schools and factories were closed. All of a sudden, the streets were empty. Currently, not only the Chinese have cancelled their trips, but foreigners who have work and travel plans to China.

There is a general fear that the larger economy is under threat. One by one, the governments of Asean countries are planning to come out with stimulus packages to cushion the impact of the epidemic, which is eroding not only China's economy and all its major trading partners in Asean.

As China's market share of Asean exports is about 15%, any slowdown in China's economy will hit its trade with Asean. With Chinese tourists in Asean totalling close to 30 million, and accounting for at least 20% of total tourists for the top destinations, tourism – which has become an important component of Asean's economy – is being hammered hard as consumer spending slows. According to a report by Moody's Analytics, the economic hit to China so far has been substantial. "Based on an assessment of how badly the economy has been disrupted by the virus in 33 of China's largest prefectures and independent municipalities, output equal to 1% of Chinese GDP has already been lost," it said in a Feb 19 report.

It added that in the most probable scenario, China's real GDP will fall in the first quarter. But growth is likely to rebound strongly in the second half of the year and the country's economy will fully recover by mid-2021. "Real GDP for all of 2020 is now expected to grow by 5.4%, down from a forecast of 6.2% prior to the outbreak," it said.

The spread of the virus has surpassed expectations and effectively shut down large parts of the Chinese economy, it added. As China's economy accounts for 16% of global GDP, the economic fallout is spreading quickly around the globe, according to Moody's.

Within Asean, Singapore was the first to announce measures to counter the negative impact of Covid-19.

On Tuesday, a series of measures to deal with short-term challenges and long-term economic development were announced by the city state's deputy Prime Minister Heng Swee Keat.

Immediate measures included a S\$4bil package to help firms with cash flow, and US\$1.6bil for household expenses, reported The Straits Times. Malaysia has announced that it would come out with a stimulus package next Thursday, while Indonesia has similar plan. Thailand, the hardest hit among all the Asean countries as tourism accounts for over 20% of its GDP, has already started implementing some ad hoc measures.

The fallout from Covid-19 paints a bleak picture for Thailand this year, as Chinese tourists account for about 30% of its international tourists. The government has scaled back expectations of total tourists for this year, after about 1.2 million to 1.3 million Chinese cancelled their February to March tours to the kingdom.

"We will try to achieve 40 million," said Yuthasak Supasorn, governor of the Tourism Authority of Thailand on local television. This was lower than the initial official target of 41.8 million tourists for this year.

Yuthasak expects Chinese arrivals to fall by about 70% over the next few months due to China's ban on outbound tour groups.

Thailand is expected to suffer foreign exchange earnings loss of US\$2.7bil over the next three months from a fall in Chinese tourist spending.

Despite the current gloomy picture, some experts believe there is light at the end of the tunnel. Confidence in China has not been undermined by the virus.

Tan Kok Wai, the Malaysian government's special envoy to China, said Beijing's effective handling of the outbreak and speedy implementation of measures to help virus-hit enterprises has instilled confidence and inspired investors to see beyond the virus. "The message is clear – this will pass and it will be back to business as usual. Malaysia will also benefit from this," he told Xinhua News.

China has remained Malaysia's largest trading partner for 11 consecutive years.

And Chinese trade, which accounted for 17.2% of Malaysia's total trade in 2019, "will recover with a higher peak" after the epidemic, Tan adds.

Financial experts in Malaysia concurred. "Asean will rise. I believe the problem is temporary. You are talking about 10 countries with more than 650 million people.

"Asean have the highest productivity, plenty of opportunities and as such we can bounce back," said Chris Daniel Wong, a leading financial specialist with Co-Metro-Max Capital Management company which has offices in Malaysia.

"As in the past, the world always recovers from its wounds. China will lead the way."

His partner, Max Shangkar, the Group CEO, of the set-up also believes that in a few months everything will change.

Wong and Max, who are also with the Koperasi Usahawan Metropolitan KL Bhd (Entrepreneur Co-Operative Limited of KL), believe that everything will change by the second quarter this year.

"Once China sorts out the outbreak, everything will change and I can assure many that everything will change," said Max.

"Many in the financial sector believe that after April everything will be normal. China also announced the outbreak will end around April," he added.

Indeed, China has a track record on fighting and managing many disasters. Take the SARS issue in 2003 for instance. China did come out of it well.

Its GDP has multiplied since then. In managing the economic fallout from the outbreak, China has adopted timely and targeted measures. Leading international analysts and business leaders have voiced their confidence in China.

The International Monetary Fund (IMF) is confident that China's economy "remains resilient", its managing director Kristalina Georgieva said on Twitter on Feb 3. China is also determined to show the world it can handle the serious problem it is facing, with President Xi Jinping taking charge.

On Feb 10, the date of production resumption set by the central government, more than 80% of the 23,000 manufacturing subsidiaries of 96 state-owned enterprises have resumed production, according to the state-owned Assets Supervision and Administration Commission of the State Council.

When China's production finally returns to normalcy and Beijing moves forward with its many plans worldwide, Asean will definitely come into the forefront again, according to analysts.

On the financial markets, China's central bank has added 1.7 trillion yuan (US\$243bil) into the banking system to boost liquidity and stabilise markets. Stephen Roach, a senior fellow at Yale University's Jackson Institute of Global Affairs, told Bloomberg he is "very optimistic about the prospects for the Chinese economy," and "there's plenty of opportunities for fiscal and monetary stimulus."

"We believe the coronavirus is a one-off negative shock, which should not alter the long-term growth trajectory of China's economy," said United Bank of Switzerland (UBS) economists in a research note.

The epidemic will not affect China's cross-border investments, although it will have a short-term impact on the Chinese economy, especially in the first quarter, according to Horst Loechel, a professor of economics at the Frankfurt School of Finance and Management. China's long-term trends of moving towards a more consumption-oriented economy and of a rising services share in the overall structure should continue, UBS economists noted.

Businesses are showing unabated interest in tapping the market that is too big to be missed, according to Doug Barry, senior director of communications at the US-China Business Council. And US businesses "remain bullish" on China, he added.

Despite the epidemic, China's FDI posted a year-on-year rise of 4% in January 2020 to 87.57 billion yuan, according to data from the Commerce Ministry.

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